

25 April 1963

Mr. Clarence W. Nichols
Office of the Assistant Secretary,
Economic Affairs
Department of State
Washington 25, D. C.

Dear Nick:

Enclosed are two copies of another study we have recently completed entitled, "Possible Soviet Interest in Increasing Exports of Diamonds to the US." I hope this report will be of interest to you and others in the Bureau.

Sincerely yours,

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Enclosures: (2)
CIA/RR CB 63-39, "Possible Soviet Interest
in Increasing Exports of Diamonds to the US,"
dated 25 April 1963

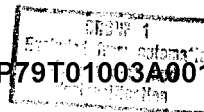
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Current Support Brief

POSSIBLE SOVIET INTEREST
IN INCREASING EXPORTS OF DIAMONDS TO THE US



CIA/RR CB 63-39

25 April 1963

CENTRAL INTELLIGENCE AGENCY
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POSSIBLE SOVIET INTEREST
IN INCREASING EXPORTS OF DIAMONDS TO THE US

Soviet trade representatives recently indicated that the USSR may be interested in selling annually US \$15 million to \$30 million of diamonds of gem and industrial grade to dealers in the US. 1/ The USSR has been exporting increasing quantities of diamonds to the Free World since 1960, but sales have been almost exclusively to the DeBeers diamond syndicate, which markets about nine-tenths of the world output of gem diamonds. The explanation for the Soviet interest at this time in sales to US dealers may be that the current contract between the USSR and DeBeers reportedly expires in September 2/ and that the USSR may be exploring other marketing channels for its diamonds.

1. Soviet Exports

Soviet sales of diamonds to the Free World have increased sharply since 1960, when the USSR reported that it sold 114,200 carats of gem stones valued at about US \$3.8 million to the UK 3/ (presumably to the DeBeers syndicate, with whom the USSR concluded its first sales contract in early 1960 4/). In 1961, Soviet sales to the DeBeers syndicate were reported to have totaled US \$15.5 million. 5/ The value of Soviet sales of diamonds in 1962 has not been announced, but the contract between the USSR and DeBeers for 1962 and 1963 reportedly allows for Soviet sales of gem stones up to US \$21 million annually. 6/

In addition to sales to DeBeers, the USSR sold very small quantities directly to the US in both 1961 and 1962. The diamonds sold to the US were cut diamonds, as opposed to the rough or uncut stones that reportedly are sold to DeBeers exclusively. Annual sales to the US were less than US \$100,000 in each year. 7/

2. Soviet Diamond Supply

Production of diamonds in the USSR has been increasing since 1958, when the first diamonds were recovered on a commercial scale from the

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Mir deposit in Yakutskaya ASSR. At the present time, three large lode deposits, including the Mir, and many placer deposits are being exploited. Production of diamonds is estimated to have been on the order of 3.8 million carats in 1961, or about 10 percent of total world output, and 5 million to 6 million carats in 1962. Production by the leading diamond-producing countries in the world in 1961 is shown in the following tabulation 8/:

<u>Country</u>	<u>Amount (Million Carats)</u>
Republic of the Congo	18.1
USSR	3.8*
Union of South Africa	3.8
Ghana	3.0
Sierra Leone	3.0
Guinea	1.2
Angola	1.1
All others	3.0
Total	<u>37.0</u>

Diamonds of gem grade, which the USSR is believed to have exported in the past, are produced as a coproduct with industrial-grade diamonds. Reportedly, between 10 and 20 percent of total diamonds produced in the USSR are of gem grade. 9/ Although most of the gem diamonds are surplus to the Soviet economy, some grades of industrial diamonds are still in short supply, and substantial quantities are being purchased from the Free World. In 1961, COCOM countries reported that they sold a total of US \$8.1 million worth of industrial diamonds to the USSR. 10/ In addition, some diamonds probably were obtained from non-COCOM countries, and some probably were smuggled. Before 1958, when the COCOM embargo on the export of industrial diamonds to the USSR was lifted, the USSR had to depend on smuggling from sources in the Free World for most of its relatively small

* Estimated.

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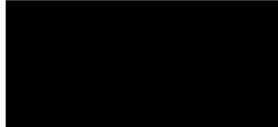
Soviet plans for production after 1965 are not known. Planning could be influenced significantly by expansion of production of synthetic diamonds, especially if the USSR is able to develop a method for synthesizing larger stones at reasonable cost. The effect of a shift to the greater use of synthetic diamonds might be to slow down the expansion of the natural diamond fields. In this event, output of surplus gem stones might not increase appreciably beyond the level expected in 1965.

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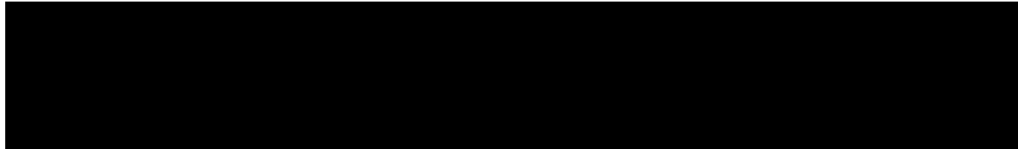
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Sources:

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1.



2. Ibid.

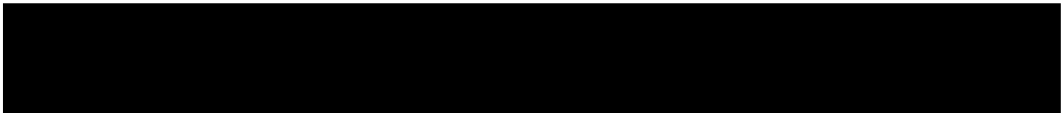
3. USSR. Vneshnyaya trgovlya SSSR za 1960 god (Foreign Trade of the USSR for 1960), Moscow, 1961. U.

4. The Diamond News and South African Jeweller, Jun 62, p. 11. U.

State. FSD no 1245, 23 Jan 61. U.

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7. Interior, Bureau of Mines. Minerals Yearbook, 1961, vol I. U. Commerce, Bureau of the Census. US Imports of Merchandise for Consumption, Commodity by Country of Origin, Jan-Dec 62.

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Diamond News and South African Jeweller, Aug 59, p. 20. U.

10. COCOM. Annual statistical reports. C.

11. Ibid.

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13. Voprosy ekonomiki, no 8, 1959, p. 122. U.

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Analyst: [REDACTED] R/MM

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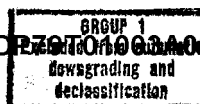
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SOURCES

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1. [REDACTED]
2. Ibid.
3. USSR. Vneshnyaya Torgovlya SSSR za 1960 g (Foreign trade of the USSR for 1960), Moscow, 1961. U.
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5. [REDACTED]
6. Ibid.
7. United States Department of the Interior, Bureau of Mines, Minerals Yearbook 1961, Volume I. U.
US Department of Commerce, Bureau of the Census, US Imports of Merchandise for Consumption, Commodity by Country of Origin, January-December 1962.
8. The Diamond News and South African Jeweller, January 1963, p. 57. U.

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9. [REDACTED]
10. COCOM Annual Statistical Reports. C.
11. Ibid.
12. CIA. FDD Summary #3816, 22 August 1962, pp 7-8. U.
13. Voprosy Ekonomiki, No. 8, 1959, p. 122. U.